FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45
In the Matter of Request for Review by Alliance Group Services, Inc. of Universal Service Administrator's Decision on Remand	)	CC Docket No. 97-21

ALLIANCE GROUP SERVICES, INC. APPLICATION FOR REVIEW OF DECISION OF THE WIRELINE COMPETITION BUREAU

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May 27, 2010

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QUESTION PRESENTED FOR REVIEW

Whether USAC erred in applying its own policy regarding transfer of assets when it billed Alliance Group even though, the selling entity, U.S. Republic, continued in existence during the relevant period?

Alliance Group challenges the Wireline Competition Bureau's (the "Bureau") conclusion that "under the [universal service] contribution methodology in effect during the period of time at issue, USAC was correct to bill Alliance based on U.S. Republic's reported revenue."[3] Alliance Group also challenges an implicit finding that, by necessary implication, underlies this conclusion: namely, that USAC correctly applied its Asset Transfer Policy to the facts of this case. The Bureau's implicit finding is contrary to the undisputed facts of this case.

As discussed further below, USAC developed a policy specifically dealing with situations in which a carrier transferred or sold its assets to another carrier. The USAC policy assigns the reporting obligation differently depending upon whether the *selling* entity continues to operate after the sale of some or all of its assets. There are two possible scenarios after an entity sells a customer base. In Scenario 1, the selling entity ceases to do business after the asset sale. In effect, in this scenario, the purchaser steps in the shoes of the seller, and the USAC policy requires the purchaser to report the historical revenues associated with the customer base in question. In Scenario 1, only one entity exists after the asset purchase, and the purchaser is responsible for both the pre-transaction and post-transaction revenues from the customer base.

In Scenario 2, by contrast, the selling entity does not cease operations, but instead continues to conduct business after the asset transfer. In this scenario, there are two entities providing telecommunications services post-transaction, not one. The USAC policy in Scenario 2 divides the responsibility for reporting historical revenues. Each entity – the seller and the

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[3] April 2010 Order, para. 9.

purchaser – is required to report its own historical revenues for the pre-transaction period. That is, the seller would report revenues it had received from the customer base prior to the asset transfer, and the purchaser would report only the revenues it received from other customers prior to the purchase. (Of course, in either scenario, the purchaser reports revenues received from the customer base after the asset transfer.)

Therefore, in order to resolve Alliance Group's appeal, the Bureau (and this Commission) must determine whether USAC correctly applied its Asset Transfer Policy. As shown below, USAC erred in billing Alliance Group for U.S. Republic's 2000 universal service obligations. In turn, the Bureau erred by implicitly finding that Scenario 1 applies. This implicit finding contradicts the undisputed factual evidence in this appeal, which shows that the seller here – U.S. Republic – continued in business for well over a year after the 1999 asset transfer. Alliance Group respectfully requests that the Commission reverse the Bureau's disposition of Alliance Group's appeal.

I. STATEMENT OF FACTS AND PROCEDURAL HISTORY OF THE DISPUTE

On December 23, 1999, Alliance Group, U.S. Republic, and VarTec entered into an Asset Purchase Agreement (the "Agreement"), whereby Alliance Group purchased a long distance customer base and other assets from U.S. Republic and VarTec.[4] Importantly, Alliance Group did not purchase U.S. Republic's stock, operations or facilities. As such, the selling parties retained ownership of U.S. Republic's stock as well as all other assets and liabilities not specifically identified in the Agreement. Indeed, the Agreement limited the transfer to only

[4] U.S. Republic and Alliance Group Services, Inc., Purchase and Sale Agreement, Preamble and *Section* 1.1, attached hereto as ***Attachment A*** (Purchased "assets" defined as "all of the long distance Customer base and accounts... owned by [U.S. Republic Communications] on the Transfer Date.").

those assets owned by U.S. Republic as of the "Transfer Date" of December 23, 1999, thereby allowing the surviving U.S. Republic entity to continue to operate after the transaction.[5]

U.S. Republic continued to operate as a VarTec subsidiary following the transaction with Alliance Group and at least throughout calendar year 2000. During this time, U.S. Republic continued to serve a portion of the customer base that had generated 1999 revenues.[6] On March 31, 2000, VarTec correctly filed its 2000 Form 499-A on behalf of its subsidiary, the surviving U.S. Republic entity, reporting that U.S. Republic collected a total of $13,597,124 in interstate and international end-user revenues ("assessable revenues") in 1999.[7] Upon information and belief, USAC then invoiced U.S. Republic for the USF contributions based on these revenues. For reasons unknown, much later in 2000, USAC reversed itself, credited U.S. Republic and attempted to invoice Alliance Group for the U.S. Republic revenues. USAC made these decisions without informing Alliance Group and without seeking input or argument from Alliance Group.

For its part, Alliance Group began reporting and paying its universal service obligations after the transaction based on the rules in place at the time. In April of 2001, Alliance Group belatedly filed its 2000 Form 499-A, reporting assessable revenues of $427,623 for 1999 based solely on Alliance Group's 1999 revenues.[8] On June 7, 2001, USAC rejected

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5 *Id.*; *see also Section 8*(j) (precluding VarTec or U.S. Republic from targeting or soliciting its former customers for three years following the transaction, thus explicitly contemplating the continued operation of U.S. Republic as an entity in modified form).

6 Alliance Group Services Inc., Petition for Review, CC Docket Nos. 96-45 and 97-21 (Oct. 30, 2001) (the "2001 Petition") pg. 4, attached hereto as ***Attachment B***.

7 VarTec Telecom Holding Company, Form 2000 499-A on behalf of U.S. Republic Communications, Inc., attached hereto as ***Attachment C***.

8 Alliance Group's 2000 499-A did not include any revenues generated from the U.S. Republic customer base since there Alliance Group generated no revenues from the U.S. Republic customer base in 1999. *See* Alliance Group Services, Inc., 2000 Form 499A (dated Apr. 11, 2001), attached hereto as ***Attachment D.***

Before the
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APPLICATION FOR REVIEW

Pursuant to 47 C.F.R. § 1.115 of the rules of the Federal Communications Commission (the "Commission"), Alliance Group Services, Inc. ("Alliance Group") respectfully requests that the Commission review the Wireline Competition Bureau's Order denying Alliance Group's request for review of a Universal Service Administrative Company ("USAC") decision.[1] Commission review is necessary to correct the Bureau's erroneous finding of a material question of fact underlying the Commission's Order. This is a timely filed application for review in full compliance with the Commission's rules.[2]

1 *Federal-State Joint Board on Universal Service,* CC Docket No. 96-45, CC Docket No. 97-21, Order, DA 10-700 (Apr. 27, 2010) (the "April 2010 Order").

2 47 C.F.R. § 1.115.

Alliance Group's 2000 Form 499-A as untimely filed.[9] USAC further explained that it was treating Alliance Group's rejected filing as a "revised" filing since Alliance Group had failed to timely file its 2000 FCC Form 499-A, a result that lead USAC to estimate Alliance's 1999 contribution obligation based upon U.S. Republic's 2000 Form 499-A. In fact, in 2000 USAC correctly billed VarTec for U.S. Republic's 1999 universal service obligations, only to reverse its decision in late 2000 and allocate those charges to Alliance Group.[10]

Alliance Group requested review of USAC's decision to reject Alliance Group's Form 499-A. Alliance Group explained that, under the USAC Asset Transfer Policy, the contributions billed to Alliance Group were the responsibility of U.S. Republic as a surviving entity controlled by VarTec.[11] USAC denied Alliance Group's request on October 1, 2001 without addressing whether U.S. Republic continued to exist as a VarTec subsidiary.[12] Alliance Group filed with the Commission a petition for review of USAC's decision shortly thereafter, again stressing the continued existence of U.S. Republic and requesting that the Commission reexamine the basis for charging Alliance Group for what should have been U.S. Republic's ongoing universal service obligations.[13]

Three years later, the Wireline Competition Bureau remanded Alliance Group's appeal back to USAC for further consideration relating to the late filing of Alliance Group's

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9 Letter from USAC to Alliance Group, *Form 499-A Revision Rejection*, June 7, 2001.

10 2001 Petition at 4; *see also* Letter from Maggie Home, Regulatory Project Manager, VarTec Telecom, Inc. to Mr. J. Carey, Alliance Group Services, Inc., Aug. 28, 2000, at 2 (acknowledging U.S. Republic's payments of universal service assessments), attached hereto as ***Attachment E***.

11 2001 Petition at 2.

12 Letter from USAC to Alliance Group, *Administrator's Decision on Contributor Appeal*, Oct. 1, 2001 ("Administrator's 2001 Decision"), attached hereto as ***Attachment F***.

13 2001 Petition at 4-6.

499-A.[14] On remand, USAC again rejected Alliance Group's appeal.[15] Alliance Group sought Commission review of USAC's remand decision in July of 2005.[16] Finally, on April 27, 2010, the Wireline Competition Bureau rejected Alliance Group's request, affirming USAC's decision on remand in its April 2010 Order.[17] It is the Wireline Competition Bureau's April 2010 Order that forms the basis of this application for review.

II. THE 2000 UNIVERSAL SERVICE CONTRIBUTION MECHANISM AND USAC ASSET TRANSFER POLICY

In 1997 the Commission set forth the specific method of computation for universal service contributions.[18] Under the initial contribution rules, contributors were required to file semi-annual reports on their end-user telecommunications revenues.[19] On September 1 of each year, contributors were required to file revenue data from the six-month period from January 1 through June 30 of that calendar year.[20] On March 31, contributors were required to file data for the whole prior calendar year.[21] Using this data, the Universal Service Administrator calculated and billed contributors for their universal service support obligations. The September filing was used to calculate contribution obligations for January to June of the

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14 20 FCC Rcd 1012 (2004).

15 Letter from USAC to Alliance Group, *Administrator's Decision on Remand*, June 3, 2005 ("Administrator's 2005 Decision"), attached hereto as ***Attachment G***.

16 Request for Review by Alliance Group Services, Inc. of Universal Service Administrator's Decision on Remand, CC Docket Nos. 96-45 and 97-21 (filed July 30, 2005), attached hereto as ***Attachment H***.

17 April 2010 Order.

18 *Changes to the Board of Directors of the National Exchange Carriers Association, Inc.*, Report and Order and Second Order on Reconsideration, CC Docket Nos. 97-21 and 96-45, 12 FCC Rcd 18400 (1997) ("Report and Order and Second Order on Reconsideration").

19 *Id.* Subsequent to this order, the Commission consolidated this reporting requirement with other reporting obligations into the FCC Form 499. *See, generally, 1998 Biennial Regulatory Review,* Report and Order, CC Docket No. 98-71, 14 FCC Rcd 16602 (1999).

20 Report and Order and Second Order on Reconsideration, 12 FCC Rcd at 18502.

21 *Id.*

following year, while the March filing was used to calculate support obligations for July through December of that year.[22] Simply put, the July-December 2000 contribution obligations were based on prior year end-user revenues.[23]

Thus, under the existing rules, the revenue data required to be filed by contributors on March 31 of 2000, reporting total 1999 revenues, were to be used to calculate the contributions owed for July through December of 2000. As noted by the FCC in early 2001, this resulted in a twelve month lag between the accrual of revenues by carriers and the assessment of universal contributions based on those revenues.[24] As a consequence of the lag between accrual of revenues and assessments based upon those revenues, the original assessment methodology delayed universal service contribution obligations for a new entrant to the long distance marketplace for up to a year.[25] Conversely, it meant that a carrier with declining interstate revenues would be assessed on its previous revenues base and would have to recover its universal service obligations from a revenue base smaller than the one upon which the mandated contributions were calculated.[26] In the years since, the Commission has modified its contribution

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22 *Id.*

23 Report and Order and Second Order on Reconsideration, 12 FCC Rcd at 18501-02, Appendix C; *see also Federal-State Joint Board on Universal Service*, Further Notice of Proposed Rulemaking and Order, CC Docket No. 96-25, 15 FCC Rcd 19947 (2000).

24 *Federal-State Joint Board on Universal Service,* Report and Order and Order on Reconsideration, 16 FCC Rcd 5748, para. 6 (2001).

25 *Federal-State Joint Board on Universal Service,* Report and Order and Second Further Notice of Proposed Rulemaking, 17 FCC Rcd 24952, 24970, para. 30 (2002) ("[T]he current contributions system based on historical revenues created competitive advantages for new entrants and contributors with increasing interstate telecommunications revenues, while disadvantaging those carriers with declining revenues."); *see also* 15 FCC Rcd at 19951; Report and Order and Order on Reconsideration, 16 FCC Rcd 5748, para. 7 ("[T]he existing contribution methodology may place new entrants into the long distance market, such as the Regional Bell Operating Companies (RBOCs)... at a competitive advantage as they gain entry into the long distance market.").

26 *Id.*

methodology to address these concerns,[27] but during the period in question it is clear that the absence of end-user telecommunications in one year would mean that no universal service obligations would accrue to that provider in the next. The existing methodology also meant that a carrier with declining revenues remained liable for its universal service contributions, even if its contribution base changed.

This contribution methodology was straightforward (if flawed) in most situations, but left ambiguous the proper treatment of companies involved in the transfer of assets. Under the semi-annual reporting regime, carriers occasionally underwent major corporate changes between reporting periods. This raised the question of which carrier, the seller or the acquirer, was obligated to make contribution filings and payments based upon the selling carrier's end-user revenues in the prior period.

The USAC Board of Directors squarely addressed this problem in January of 2000 when it approved a policy for applying the reporting and contribution requirements to companies involved in the transfer or sale of customer base assets.[28] Under this policy (the "Asset Transfer Policy"), the Board concluded that a carrier's reporting and contribution obligations depend on whether the selling party survives the sale transaction.[29]

Two scenarios are possible. In Scenario 1, the selling entity ceases to do business after the asset sale. In effect, in this scenario, the purchaser steps in the shoes of the seller, and the USAC policy requires the purchaser to report the historical revenues associated with the customer base in question. In Scenario 1, only one entity exists after the asset purchase, and the

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27 *Id*, para. 29 (2002).

28 *See* USAC Board of Directors Minutes, January 25, 2010, "Procedures for the Required Filing and Follow-Up of Contribution Reports for Companies involved in the Transfer and/or Sale of Assets" ("Asset Transfer Policy"), attached hereto as ***Attachment I***.

29 *Id.* at 3.

purchaser is responsible for both the pre-transaction and post-transaction revenues from the customer base.

In Scenario 2, by contrast, the selling entity does not cease operations, but instead continues to conduct business after the asset transfer. In this scenario, there are two entities providing telecommunications services post-transaction, not one. The USAC policy in Scenario 2 divides the responsibility for reporting historical revenues. Each entity – the seller and the purchaser – is required to report its own historical revenues for the pre-transaction period. That is, the seller would report revenues it had received from the customer base prior to the asset transfer, and the purchaser would report only the revenues it received from other customers prior to the purchase. (Of course, in either scenario, the purchaser reports revenues received from the customer base after the asset transfer.)

In a particularly relevant example, the Asset Transfer Policy sets forth a hypothetical transaction where the seller continues to operate after the sale:

> Company A only sells a portion of its customer base (the Sold Customer Base) on 2/15/99 to Company B, and is still in operation. Company A is responsible for reporting Sold Customer Base revenue for the period January 1 – December 31, 1998, on the April 1 worksheet. Company A must also report Sold Customer Base revenue for January 1 through February 15, 1999 on the September 1 worksheet. Company B must report Sold Customer Base revenue for February 15 through June 30, 1999, on the September 1, 1999, Worksheet.[30]

Company A – the seller – is responsible for reporting the historical revenues in USAC's example. Thus, the Asset Transfer Policy clearly demonstrates that the *seller* of assets maintains a continuing duty to file revenue data and pay contribution obligations for the period in which the selling carrier continues to generate revenues.

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30 Asset Transfer Policy at 3.

Read together, the Asset Transfer Policy is entirely consistent with the standard contribution model that applied for carriers not involved in asset transactions. In either instance, a carrier that continues to operate a year after accruing assessable revenues would be responsible for paying contributions based upon the prior year's revenue figures, regardless of whether that carrier's contribution base contracted.

Considering the policy yields the following logical conclusions for the case in question. Had U.S. Republic sold its assets to Alliance Group and then dissolved as an entity, Alliance Group would have stepped into the shoes of U.S. Republic for the purpose of its universal service contributions. Conversely, had U.S. Republic never sold *any* of its assets, then U.S. Republic would clearly have remained responsible for reporting its revenues and contributing to the universal service fund based on its prior year revenues. Here, however, U.S. Republic continued to exist after the sale of its assets to Alliance Group. Thus, the correct application of the Asset Transfer Policy dictates that a seller that survives an asset transfer transaction, not the purchaser, is the party responsible for reporting the revenues derived from the customer base prior to the asset transfer.

III. THE WIRELINE COMPEITION BUREAU ERRED BY TREATING U.S. REPUBLIC AS IF IT HAD DISSOLVED FOLLOWING THE DECEMBER 1999 ASSET TRANSFER TO ALLIANCE GROUP

The core facts in this action are undisputed. Alliance Group purchased assets from U.S. Republic in December 1999. After the purchase, both U.S. Republic and Alliance Group continued to operate throughout 2000. Indeed, U.S. Republic filed an FCC Form 499-A in March 2000. U.S. Republic continued to exist as a corporate entity until 2001, well over a year after the Asset Purchase Agreement.[31]

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[31] Documents from the Texas Secretary of State, previously submitted to the Commission and USAC, demonstrate that U.S. Republic survived as a corporate entity until March 22,

Nevertheless, the Bureau Order misapprehended a single material fact driving the outcome of this case: the continued existence of U.S. Republic as an entity after the December 1999 asset purchase transaction. Throughout the course of this dispute, USAC has treated U.S. Republic as if it had dissolved after its sale of assets to Alliance Group. However, the facts demonstrate that U.S. Republic continued to operate to as a VarTec subsidiary until at least March 22, 2001 and made its universal service filings and contributions until June 2000, a fact acknowledged by the Bureau (but not heeded) in its April 27th Order.[32] Publicly available filings made by VarTec with various regulators further substantiate the conclusion that VarTec continued to own and operate U.S. Republic Communications, Inc. well after the December transaction with Alliance Group and into at least 2001.[33] As such, USAC erred by treating U.S. Republic as if it had dissolved after the asset acquisition and erred in applying its Asset Transfer Policy. Under a correct implementation of its own policy, USAC should have billed the surviving seller, U.S. Republic, for its 2000 contributions based on U.S. Republic's 1999 revenue figures. Alliance Group, on the other hand, should have been billed in this period for its

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2001. See *Appeal of USAC Decision on Remand*, Attachment H; *Appeal*, Exhibit E. Other, publicly available documents clearly demonstrating the ongoing existence of U.S. Republic, Inc. as a subsidiary of VarTec are attached hereto as ***Attachment J*** (collectively, "U.S. Republic Corporate Records").

32 April 2010 Order, para. 4; *see also* Alliance Request for Review, Attach. F (Declaration of Lawrence M. Brenton) at para. 8, attached hereto as ***Attachment K***.

33 *See generally*, U.S. Republic Corporate Records; *see also* Annual Report of *VarTec Telecom, Inc. to Public Service Commission of Wisconsin*, available at: https://psc.wi.gov/pdffiles/annlrpts/tele/OTH_2001_7841.pdf at 8 (Mar. 28, 2002) (VarTec reported to the Public Service Commission of Wisconsin that it held an 80% interest in U.S. Republic Communications, Inc. for the year of 2001); Letter from CommuniGroup, Inc. to Florida Public Service Commission (March 26, 2001), available at: http://www.floridapsc.com/library/filings/01/03969-01/03969-01.pdf at 23 (VarTec's parent company, CommuniGroup, Inc., reporting U.S. Republic Communications, Inc. as a continuing subsidiary of VarTec Telecom, Inc.).

own revenues in the prior year, was billed based upon these revenues, and paid the amount owed.[34]

Unfortunately, despite the clear language of the Asset Transfer Policy and repeated requests and appeals by Alliance Group to revisit the issue, USAC has erroneously concluded that "Alliance was responsible for filing a Form 499-A reporting all of U.S. Republic's 1999 revenue for purposes of providing USAC with the information to properly estimate 2000 billing."[35] The Bureau Order repeated this error, holding that "under the contribution methodology in effect during the period of time at issue, USAC was correct to bill Alliance based on US Republic's reported revenue" from 1999.[36]

Notably, the Bureau Order does not examine the facts underlying the USAC conclusion assigning responsibility for the 1999 revenues to Alliance Group. Nowhere does the Bureau acknowledge that USAC's conclusion is contrary to the undisputed evidence showing that U.S. Republic continued to operate and exist until March of 2001, well over a year after the Asset Purchase Agreement. Moreover, the Bureau Order does not discuss the applicability of the Asset Transfer Policy to this case. Alliance Group respectfully submits, for the reasons explained above, that the Asset Transfer Policy places the reporting obligation on U.S. Republic in this instance.

In this context, the Bureau's position that universal service contribution obligations constitute a current obligation based upon reported revenues from the prior year is a red herring.[37] It is uncontroversial to say that, during the time in question, a carrier was

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34 Alliance Group Services, Inc., 2000 Form 499A, *supra*, n. 21.

35 Administrator's 2001 Decision at 2.

36 April 2010 Order at para. 9.

37 *Id.*

supposed to bill its *current* customers an amount sufficient to cover its universal service obligations, which were in turn calculated off its prior-year customer base. No doubt, this methodology created many hardships for contributing carriers, particularly for those carriers whose revenues declined or were sold to third parties. It is for this very reason that the Commission eventually modified the contribution methodology in order to assess contributions based on projected, rather than historic, revenues. But Alliance Group's appeal did not rest on this hardship. At its core, Alliance Group's appeal concerns the proper application of the Asset Transfer Policy. Had USAC and the Bureau correctly treated U.S. Republic as an entity that survived the 1999 Asset Purchase Agreement with Alliance Group, as it should have, Alliance Group would never have been billed for the U.S. Republic's 2000 universal service contributions. It was this improper invoicing that formed the basis for Alliance Group's appeal.

CONCLUSION AND RESTATEMENT OF RELIEF

In light of the forgoing discussion, Alliance Group respectfully requests that the Commission recognize the fact of the continued existence of U.S. Republic as an entity after the December 1999 transaction and through the year 2000. Thus, USAC erred in assessing universal service contributions against Alliance Group in the Year 2000, as those contributions were the responsibility of VarTec's still-existing subsidiary, U.S. Republic Communications, Inc. Accordingly, pursuant to 47 C.F.R. § 1.115, Alliance Group requests that the Commission reverse the Wireline Competition Bureau and USAC's erroneous finding of fact and order that USAC remove all universal service assessments based upon revenues reported by U.S. Republic

for services provided and billed prior to December 23, 2009, from Alliance Group's USAC account.

Respectfully submitted,

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May 27, 2010

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ATTACHMENT A

COPY

PURCHASE AND SALE AGREEMENT

This Purchase and Sale Agreement (the "Agreement") is entered into this 23rd day of December, 1999, by and between **U.S.REPUBLIC COMMUNICATIONS, INC.**, a Texas corporation ("USRC"), located at 4800 Sugar Grove Blvd, Suite 500, Stafford, Texas, and **ALLIANCE GROUP SERVICES, INC.**, a Delaware corporation ("AGSI"), located at 1221 Post Road East, Westport, Connecticut 06880.

VARTEC TELECOM HOLDING COMPANY, a Delaware corporation ("VARTEC"), joins herein for the purpose of evidencing majority shareholder approval and joining in certain of the conveyances and representations, as herein applicable.

1. **Definitions:** In this Agreement, the following terms shall have the following meanings:

1.1 The term "Assets" is defined as including the following items:

a) all of the long distance Customer base and accounts (the "Customers") owned by USRC on the Transfer Date; and
b) the independent agent agreements described on Exhibit "A" attached hereto; and
c) all Letters of Agency, third party verification tapes and records for Customers;
d) the trade name 'U. S. Republic Communications' (Trade Name Registration # 2,003,500, subject to all existing third party rights to use; and
e) the Billing and Collection Agreement dated November 8, 1996 between VarTec and OAN;
f) the Switchless Resale Agreement dated November 1, 1998 between USRC and EqualNet Corporation;
g) all other records relating to said Customer base and accounts; and

1.2 The term "Transfer Date" shall mean the date, not later than December 23, 1999, that the Customer receivables for AT&T billing cycles ending in December, 1999 are transferred from USRC to AGSI for rating, billing, collecting and management purposes in accordance with Article 3 herein.

1.3 The term "Interim Plan" shall refer to the management of the Customers during the period between the Transfer Date and the Closing Date;

1.4 The term "Closing Date" shall mean the date on which the closing of the Asset sale from USRC to AGSI occurs, after all regulatory consents and approvals have been obtained in accordance with Article 10.

2. **DUE DILIGENCE.**

USRC will provide AGSI access to all of the records relating to the Customers in order for AGSI to conduct a due diligence review of the Assets. AGSI will have until Monday, 5 p.m., December 20 , 1999 to conduct a due diligence review of the Assets, and to notify USRC in

writing of its election to accept Customers and to proceed to closing or cancel this agreement. Failure to timely respond in writing to USRC shall be deemed acceptance of the Agreement.

3. PURCHASE AND SALE

On the terms and subject to the conditions hereafter expressed, Seller agrees to sell, transfer, assign and convey to Buyer at the Closing the Assets free and clear of all liens and encumbrances of any kind. After the Transfer Date and prior to the Closing, the parties agree to manage the Assets in accordance with the terms set out in the Interim Plan in Article 5 hereafter.

4. PURCHASE PRICE FOR ASSETS.

AGSI agrees to pay to USRC a total purchase price of $2,500,000.00 for the Assets, payable as follows:

1. AGSI agrees to pay USRC by wire transfer $1,500,000.00 at the Transfer Date.

2. AGSI agrees to pay USRC an additional $1,000,000.00, payable in 4 equal, quarterly installment payments of $250,000.00 each commencing 90 days after the December 23, 1999 and quarterly thereafter. AGSI will not be entitled to reduce or offset any installment payment to USRC herein unless and except for fraud or material breach of representations or warranties by USRC. In the event of dispute as to any reduction by AGSI, the parties shall be entitled to enforce any rights afforded by this Agreement.

5. INTERIM PLAN PENDING REGULATORY APPROVALS.

(a) After payment of the Purchase Price, AGSI will take over responsibility for and shall commence rating, billing collecting and management of all Customer receivables for AT&T billing cycles ending in December, 1999, and thereafter. USRC agrees to transfer to AGSI the AT&T billing tapes for cycles ending in December, 1999.

(b) AGSI agrees to be responsible for, and shall reimburse USRC, all AT&T usage costs and expenses associated with the billing tapes transferred to AGSI, including but not limited to, all associated fees and charges, such as PIC-C and USF incurred for the December, 1999 billing cycles. AGSI agrees to reimburse USRC for the AT&T usage charges within fifteen (15) days of date billed by AT&T. AGSI shall thereafter be solely responsible for all associated AT&T usage costs and expenses thereafter associated with the Customers, including tax compliance and reporting.

(c) The Purchase Price will be payable by AGSI to USRC on December 23, 1999.

(d) AGSI expressly agrees to assume all agent commission obligations and EqualNet contract obligations after the Transfer Date.

(e) AGSI agrees that it will continue to use the 'U.S. Republic Communications' name and the tariffed rates of USRC in effect during the interim management period to bill the end user Customers prior to final Closing. After Closing, ASGI shall have the full right to use of the name 'U.S. Republic Communications' as it deems necessary.

(f) AGSI further agrees to be responsible for all Customer service obligations after December 23, 1999 associated with the Customer base, and agrees to timely supply all Customers an 800# for AGSI Customer service. AGSI will be responsible for issuing credits for any revenues in USRC's name with respect to all AT&T tapes billed by AGSI.

(g) AGSI agrees to accept the Assets pending receipt of all regulatory approvals provided for in Article 7 hereafter.

(h) At the Transfer Date, VarTec agrees to assign and transfer to AGSI 1) that Billing and Collection Agreement between VarTec and OAN Services, Inc. dated November 8, 1996, subject to consent of OAN, and 2) that Switchless Resale Agreement dated November 1, 1998 between EqualNet Corporation and VarTec. AGSI will be solely responsible after the Transfer Date for servicing the Customer base through the OAN agreement and for all rights and obligations arising from the EqualNet agreement. 3) all records related to the Assets, including agent agreements.

6. OBLIGATIONS IN CONNECTION WITH TRANSFER OF ACCOUNTS.

(a) USRC agrees to provide AGSI with available Letters of Agency, third party verification tapes or other such items evidencing verification under 47 CFR 64.1100 and other such applicable state verification statutes, rules and regulations authorizing USRC to select the long distance carrier for each of the Customers. AGSI agrees to allow USRC to use of any verification tapes transferred to it that are needed by USRC after the Transfer Date.

(b) During the Interim Plan period, USRC agrees to fully cooperate and assist AGSI in the timely transfer, transition and assistance of Customers accounts to AGSI, including but not limited to, assisting with the transfer of Customer data records to AGSI in a usable format, and such items as a joint letter from the presidents of USRC and AGSI welcoming USRC Customers to AGSI, notifying them of any changes in their service and pricing structure, or other correspondence agreed to by the parties

(c) AGSI will notify USRC of request for credits for periods prior to the Transfer Date. USRC will pay credit requests for Customer billings for periods prior to the Transfer Date in a manner consistent with USRC's customary service procedures.

7. REGULATORY APPROVALS.

(a) USRC will be responsible for making any applicable state and federal regulatory filings on behalf of itself and AGSI in jurisdictions in which approvals are required, such as state public utility commissions and the Federal Communications Commission, after the Transfer Date and prior to Closing Date. AGSI agrees to fully cooperate with USRC to complete all filings by providing information, signatures, documents, certifications and similar items as needed and/or required by any and all state and federal regulatory agencies responsible for reviewing and approving this transaction. AGSI shall supply the requested information to USRC or perform the requested act (e.g., execution of all applications for regulatory approval, etc.) no later than the next business day after the request is made by telephone, electronic mail, facsimile, overnight delivery or other means of delivery. USRC agrees to initiate said filings within ten (10) business days of the Transfer Date of this Agreement, and all filings shall be made by USRC and awaiting regulatory approval within thirty (30) business days of the Transfer Date of this Agreement, provided AGSI provides USRC with the required information for the filings or unless otherwise agreed to by the parties. USRC agrees that it will not send any correspondence to any end user Customer pursuant to regulatory consents and approvals regarding this transaction without 48 hour advance notice to AGSI for their review, comment and approval, which consent will not be unreasonably withheld. USRC reserves the right to send revised correspondence after 48 hours.

(b) This Agreement cannot be canceled by any party that fails to cooperate to timely make all filings required by law to receive approval from state and regulatory agencies. In the event any approval is not obtained for whatever reason, but approvals are obtained in states representing over 75% of the Customers, then the parties agree to proceed to Closing for all Customers located in states where approvals have been received. The parties agree to mutually pursue the remaining regulatory approvals in order to Close the purchase and sale of the remaining Customers in a timely manner. The purchase price will be proportionately reduced where approvals cannot be obtained.

(c) In the event regulatory approvals cannot be obtained from states representing over 75% of the Customer base, then either party shall have the right to cancel the Agreement and AGSI shall return the Customer information to USRC and/or VarTec. In the event of cancellation, this contract will be dissolved as if this Agreement never occurred, and the parties agree to provide a full accounting of all purchase monies received by USRC and revenues received by AGSI relating to the Customer base discussed herein.

(d) USRC will be responsible for all filing fees charged by the applicable state and federal agencies to obtain regulatory consents to sale of the Assets, provided however AGSI will remain responsible, and shall reimburse USRC, for any required AGSI regulatory filings.

(e) USRC further agrees to complete and furnish to AGSI such other documentation as may be required under either state or federal laws pertaining to the transfer of the Customer base subject to this agreement for the purpose of complying with any bulk sales or other statutes for the transfer of a major asset of a transferor or for complying with any statute and/or regulation.

8. SELLER REPRESENTATIONS AND WARRANTIES.

USRC and VarTec represent and warrant that:

(a) USRC and/or VarTec is the sole owner of the Customer account base to be transferred hereunder and has the full legal ability to transfer them free and clear of any liens on such accounts to AGSI at closing, and free of any claims for broker commissions owned on Customer accounts for periods before the Transfer Date;

(b) the person executing this Agreement on behalf of USRC is authorized to execute this Agreement on behalf of and to bind USRC to the terms hereof without the necessity of further director or shareholder approval and that USRC is validly incorporated in the State of Texas, is in good standing and that all franchise and other taxes due the State of Texas are paid;

(c) USRC has not transferred or committed to transfer the Customer accounts herein to any other party, that no other party has a prior claim or purchase right in such account and USRC has had no new Customer sales since September, 1999 and no significant new solicitations since January, 1999;

(d) USRC will provide prior to the Closing Date all releases necessary to allow the transfer of its accounts free and clear from any liens, security interests or UCC filings;.

(e) that USRC has complied with the laws and regulations of the FCC and appropriate State Utility Commissions, and USRC will remain responsible for any acts, pending actions or violations involving long distance Customers that arose or occurred prior to the Transfer Date (it being the date of the act or occurrence and not the date of the filing of any action which determines USRC's responsibility for the resolution of any such claims);

(f) USRC has not given any warranties or representations to any third parties or to any or all of the Customer Base in connection with its supplying of services to the Customer Base and accounts nor is it aware of any facts or occurrence forming the basis of any present claim against USRC relative to the assets and

(g) that, to USRC's knowledge, there is no material dispute with any LEC that will interfere with or prevent the billing of the long distance Customers conveyed herein.

(i) USRC has not materially breached any agent agreements or the EqualNet agreement and that no current material dispute exists between any of the parties, and that 100% of the Customers were third party verified.

(j) they will not target mail or knowingly solicit the Customers for a period of three (3) years, provided however, VarTec reserves the right to direct sell and/or market through normal mass market advertising or through sales distribution channels.

9. BUYER REPRESENTATIONS AND WARRANTIES.

Buyer represents and warrants that:

(a) the person executing this Agreement on behalf of AGSI is duly authorized to execute this Agreement on behalf of and to bind AGSI to the terms hereof without the necessity

of any further director or shareholder approval and that AGSI is authorized to do business in the State of Texas, is in good standing and that all franchise and other taxes due the State of Texas and other states have been paid;

(b) it will be legally responsible for and will pay on a timely and accurate basis all commission owing to agents under the agreements set out on Exhibit "A" attached hereto attributable to Customer accounts after the Transfer Date;

(c) it will timely cooperate with all regulatory approval and consent filings from all state and federal regulatory agencies.

10. CLOSING DATE.

Closing Date will be at a mutually agreeable time within thirty (30) days after all regulatory approvals have been obtained, or, if all regulatory approvals cannot be obtained, but regulatory approvals have been obtained from states representing 75% of the Customers, then the Closing Date will be within thirty (30) days of notice by either party of such fact. Closing will be at the offices of VarTec in Lancaster, Texas. At Closing USRC shall provide such opinions of counsel and bill of sale or other transfer document as reasonably requested by AGSI.

11. INDEMNIFICATION.

(a) USRC and VarTec agree to indemnify and hold AGSI, its stockholders, parents, affiliates, officers, directors, employees and agents, harmless from any and all actions, claims, suits, costs, attorneys' fees or damages which arise after the Transfer Date but are attributable to periods, payments or events which accrue or arise on or before the Transfer Date relating to (i) any violation or alleged violation of any FCC or other applicable law or state regulation relating to the Assets, (ii) arising out of fraudulent calls of any nature to the extent that the party claiming the calls in question to be fraudulent, is (or had been at the time of the call) an End User of USRC, and is part of the Assets, (iii) any slamming or cramming claim by a Customer alleged to have occurred prior to the Transfer Date, and the party requesting the credit is part of the Assets.

(b) AGSI agrees to indemnify and hold USRC and VARTEC, their stockholders, parents, affiliates, officers, directors, employees and agents, harmless from any and all actions, claims, assessments, suits, costs, attorneys' fees or damages attributable to periods, payments or events which accrue or arise after the Transfer Date relating to (i) any violation or alleged violation of any FCC or other applicable law or state regulation relating to the Assets, (ii) arising out of fraudulent calls of any nature to the extent that the party claiming the calls in question to be fraudulent, is (or had been at the time of the call) an End User of AGSI, and is part of the Assets, (iii) any slamming or cramming claim by a Customer alleged to have occurred after the Transfer Date, and the party requesting the credit is part of the Assets.

(c) Neither party shall be responsible for any consequential, special, incidental or punitive damages, including lost profits, alleged to have been incurred by the other party.

12. CONFIDENTIALITY OF CUSTOMER ACCOUNTS AND THIS AGREEMENT.

USRC agrees to maintain as confidential the long distance Customer account information for the Customer accounts being transferred to AGSI, including but not limited to each Customer's name, telephone number(s), address and all other information pertaining to the Customer's account. Further, both parties agree to maintain as confidential all of the terms and conditions of this Agreement, all information contained therein and any Exhibits to such Agreement, and any information exchanged between the parties in either the negotiation of this Agreement or the preparation of the documentation evidencing the agreement of the parties.

13. GOVERNING LAW, VENUE AND MANDATORY MEDIATION.

This Agreement shall be construed under the laws of the state of Texas. If any dispute or interpretation shall arise which cannot be resolved by the parties, then the parties will submit to non-binding mediation prior to suit in a good faith effort to resolve any disputes. After full participation in the mediation, either party may file suit against the other hereto. Any suit under this Agreement shall be brought in a court of appropriate jurisdiction in Dallas County, Texas.

14. ENTIRE AGREEMENT.

This Agreement constitutes the entire agreement and understanding between the parties, and supersedes all prior correspondence, negotiations or letter of intent, and cannot be modified or amended except by written agreement between the parties.

15. MULTIPLE COUNTERPART ORIGINALS.

This Agreement may be executed in multiple counterpart originals, each of which shall be an original instrument but taken together, shall constitute one Agreement. The parties agree that a facsimile signature or signature transmitted via facsimile machine shall be considered the same as an original signature for all purposes. The addresses shown below are valid for all notices hereunder, which shall be deemed given when faxed to the fax number, with a hard copy confirmation at the address shown.

SELLER	**BUYER**
U. S. REPUBLIC COMMUNICATIONS, INC.	ALLIANCE GROUP SERVICES, INC
By: _____	By: _____
Ron L. Hughes,	Samuel A. Brown, Chairman
Vice President	and Chief Executive Officer

Joining herein for the purpose of evidencing majority shareholder approval and concurring in the conveyances and representations as applicable herein.

VARTEC TELECOM HOLDING COMPANY

By: _____
Ron L. Hughes, Vice President

ATTACHMENT B